
First-time IFRS annual financial statements

Investment funds – an illustration *(Second edition)*





To our clients and other friends

For Canadian investment funds, preparing 2014 financial statements has become challenging by the first-time application of IFRS and the CSA's recently issued revised NI 81-106. We have revised the following second edition illustrative financial statements, which we originally issued in May 2013, to assist you in this process. We have also included highlighting in yellow where changes from the first edition have been made. We hope that you find these illustrative financial statements useful. If you have any questions, do not hesitate to contact me, your local PwC engagement partner, or any of our Asset Management industry experts.

Yours truly

A handwritten signature in black ink, appearing to read 'Raj Kothari', with a stylized flourish at the end.

Raj Kothari, FCPA, FCA
GTA Managing Partner and
National Asset Management Practice Leader

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Abbreviations

Throughout this publication, abbreviations have been used with the following meanings:

AcG-18	Accounting Guideline 18, <i>Investment Companies</i>
CICA	Canadian Institute of Chartered Accountants
CSA	Canadian Securities Administrators
GAAP	Generally Accepted Accounting Principles
FASB	Financial Accounting Standards Board
FVTPL	Fair value through profit or loss
IAS 1	International Accounting Standard 1, <i>Presentation of Financial Statements</i>
IAS 7	International Accounting Standard 7, <i>Statement of Cash Flows</i>
IAS 8	International Accounting Standard 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>
IAS 12	International Accounting Standard 12, <i>Income Taxes</i>
IAS 18	International Accounting Standard 18, <i>Revenue</i>
IAS 28	International Accounting Standard 28, <i>Investments in Associates and Joint Ventures</i>
IAS 32	International Accounting Standard 32, <i>Financial Instruments: Presentation</i>
IAS 33	International Accounting Standard 33, <i>Earnings Per Share</i>
IAS 34	International Accounting Standard 34, <i>Interim Financial Reporting</i>
IAS 39	International Accounting Standard 39, <i>Financial Instruments: Recognition and Measurement</i>
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IFRS 1	International Financial Reporting Standard 1, <i>First-time Adoption of International Financial Reporting Standards</i>
IFRS 7	International Financial Reporting Standard 7, <i>Financial Instruments: Disclosures</i>
IFRS 9	International Financial Reporting Standard 9, <i>Financial Instruments</i>
IFRS 10	International Financial Reporting Standard 10, <i>Consolidated Financial Statements</i>
IFRS 12	International Financial Reporting Standard 12, <i>Disclosure of Interests in Other Entities</i>
IFRS 13	International Financial Reporting Standard 13, <i>Fair Value Measurement</i>
NAV	Net Asset Value
NI 81-102	National Instrument 81-102, <i>Mutual Funds</i>
NI 81-106	National Instrument 81-106, <i>Investment Fund Continuous Disclosure</i>

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Introduction

This publication demonstrates the application of the more common IFRS requirements for first-time annual IFRS financial statements for Canadian investment funds. The financial statements are those for a hypothetical Canadian open-ended mutual fund trust with a diverse portfolio of investments (Sample Fund). For certain of the more important issues, we have provided our observations and, when relevant, a discussion about the Canadian securities requirements and the views of regulators expressed to date. Although Sample Fund is an open-ended mutual fund trust, we have also provided insights on additional issues and implications for other common fund structures in Canada.

These illustrative financial statements are based on the following fundamental assumptions we expect will be typical of many Canadian investment funds in the preparation of their first-time IFRS annual financial statements. Those assumptions are that Sample Fund has:

- Decided to carry forward Canadian GAAP presentation and disclosure formats and conventions previously applied to the extent permissible under IFRS;
- Adopted accounting policies for the valuation of its investments permissible under IFRS which are identical to those used in the calculation of its NAV;
- Elected to hold all investments directly and thus does not have any controlled subsidiaries to which IFRS 10 is relevant;
- Chosen to report cash flow from operating activities using the indirect method of reconciliation rather than the direct method;
- Issued units on the same day that distributions were declared to investors who elected to receive distributions in units rather than in cash; and
- Been required to classify units issued to investors as financial liabilities in accordance with IAS 32.

These illustrative financial statements have been updated to include the CSA's recently issued amendments to NI 81-106, which were broadly consistent with its proposed amendments in 2009 and with the assumptions made in the previous edition of this publication. Earlier this year, the IASB also voted tentatively to defer the mandatory adoption date of IFRS 9 pending finalization of the project. As a result, Sample Fund has decided to adopt IAS 39 on its transition to IFRS, rather than early adopting IFRS 9. Other significant changes to Sample Fund's financial statements and PwC observations thereon have been highlighted in yellow throughout this second edition. While this publication illustrates the requirements of NI 81-106 which apply to Sample Fund, it does not illustrate all possible accounting or regulatory reporting requirements. Investment funds subject to additional requirements, including segregated funds required to comply with the Canadian Life and Health Insurance Association Guideline 2, should refer to the requirements of those additional standards and regulations.

Statements of financial position

(All amounts in thousands except per unit amounts)

	Note	December 31, 2014	December 31, 2013	January 1, 2013*
Assets				
Current assets				
Investments				
Non-derivative financial assets		\$ 459,460	\$ 491,574	\$ 463,114
Gold bullion		177	522	85
Cash		135	6	8
Subscriptions receivable		213	404	342
Interest receivable		2,469	1,648	2,027
Dividends receivable		723	376	345
Derivative assets		563	-	17
		463,740	494,530	465,938
Liabilities				
Current liabilities				
Payable for investments purchased		-	7,055	-
Redemptions payable		478	417	394
Distributions payable		49	77	38
Accrued liabilities		732	803	765
Derivative liabilities		31	-	-
		1,290	8,352	1,197
Net assets attributable to holders of redeemable units	7	\$ 462,450	\$ 486,178	\$ 464,741
Net assets attributable to holders of redeemable units per unit		\$ 12.92	\$ 13.28	\$ 12.94

PwC observation. Under IFRS, Sample Fund's redeemable units are classified as financial liabilities rather than equity, as they were under Canadian GAAP. As a result, the Fund has elected to present statements of financial position using the format illustrated in Example 7 of IAS 32 for entities with no equity. Example 7 states that other presentation formats are possible, consistent with IAS 1.6 which suggests that entities without equity may need to adapt the financial statement presentation of unitholders' interests. Sample Fund could, however, continue to present a traditional balance sheet showing the total of all of its liabilities, with an additional line to indicate that the equity of the Fund is nil. If an open-ended investment fund's units are presented as equity under IFRS, it may be required to present components (e.g. retained earnings, unitholders' capital and contributed surplus) which were not previously required in all cases under Canadian GAAP.

Under Canadian GAAP, Sample Fund did not classify its assets and liabilities between current and non-current items however, upon transition to IFRS it determined that this was necessary pursuant to IAS 1.60. Consistent with Canadian GAAP, Sample Fund has presented a receivable for subscriptions which have not yet settled. This is appropriate as Sample Fund's units are issued daily and settled within a short period of time however, investment funds with subscriptions which are receivable over a longer period (e.g. capital commitments in a private equity fund) may not qualify as an asset under IFRS.

*Investment funds will be required to include an opening balance sheet as at the beginning of the earliest period presented in their first-time IFRS financial statements. NI 81-106 Part 18.5.1 clarifies that this statement is required whether or not the investment fund has any significant adjustments upon transition to IFRS. During its 2011 Annual Improvements process, the IASB amended IAS 1 to clarify that comparative information is required for all statements presented, which would include note disclosures for all three statements of financial position in first-time IFRS financial statements.

Statements of comprehensive income

(All amounts in thousands except per unit amounts)

	Note	Year ended December 31,	
		2014	2013
Income			
Interest income		\$ 9,968	\$ 10,067
Dividend income		7,011	5,604
Securities lending income		65	64
Foreign exchange gain (loss) on cash		(12)	29
Other changes in fair value of investments and derivatives			
Net realized gain		14,804	4,471
Net change in unrealized appreciation (depreciation)		(23,923)	13,586
Total income (net)		7,913	33,821
Expenses			
Management fees	8	8,961	8,821
Withholding taxes		295	258
Transaction costs	9	257	49
Custodial fees	8	212	210
Legal fees		52	69
Securityholder reporting costs		32	28
Audit fees		11	11
Independent review committee fees	8	8	8
Total expenses		9,828	9,454
Increase (decrease) in net assets attributable to holders of redeemable units	10	\$ (1,915)	\$ 24,367
Increase (decrease) in net assets attributable to holders of redeemable units per unit	10	\$ (0.05)	\$ 0.67

PwC observation. Sample Fund's redeemable units are classified as financial liabilities to which all of its gains and losses are attributed. As a result, its comprehensive income will always be nil. Consistent with Example 7 of IAS 32 and IAS 1.6, Sample Fund's "bottom line" is its increase (decrease) in net assets attributable to holders of redeemable units. Sample Fund's objective was to remain as consistent as possible with its previous Canadian GAAP presentation however, there are many presentation formats other than that illustrated above which may be appropriate. For example, Sample Fund could have presented a traditional statement of comprehensive income showing the total of all of its expenses, with an additional line to indicate that the comprehensive income of the Fund is nil. Alternatively, Example 7 of IAS 32 presents distributions to unitholders as finance costs, which results in the increase (decrease) in net assets attributable to holders of redeemable units being reduced by the amount of such distributions. This approach is illustrated in our 2012 global publication *Illustrative IFRS financial statements – Investment funds*.

Sample Fund has disclosed the increase (decrease) in net assets attributable to holders of redeemable units per unit, consistent with the requirements of NI 81-106. As explained in the PwC observation in Note 10, this represents an additional GAAP measure, as defined by the CSA. Substantially all of Sample Fund's investments are carried at FVTPL. Sample Fund has separately presented interest income, dividend income, net realized gain (loss) and change in unrealized appreciation (depreciation) rather than a single line for overall changes in fair value. This presentation is required by NI 81-106. In its revisions to NI 81-106, the CSA repealed the requirement to present net investment income. Consequently, we expect most investment funds will adopt Sample Fund's method of presentation, which presents all components of the changes in the fair values of its investments, and the total of such amounts, within the income section. IFRS does not require presentation of interest income for investments at FVTPL, however, if presented it is required by IAS 18.30 to be calculated using the effective interest method.

In some cases, investment funds may determine that additional subtotals for "increase (decrease) in net assets attributable to holders of redeemable units before income taxes," "income taxes," and "net increase (decrease) in net assets attributable to holders of redeemable units" are relevant to an understanding of the fund's financial performance, in which case presenting them would also be appropriate.

Statements of changes in net assets attributable to holders of redeemable units

(All amounts in thousands)

	Note	2014	2013
Net assets attributable to holders of redeemable units at beginning of period		\$ 486,178	\$ 464,741
Increase (decrease) in net assets attributable to holders of redeemable units		(1,915)	24,367
Distributions to holders of redeemable units			
From net investment income		(6,362)	(5,347)
From net realized gains on investments and derivatives		(495)	(692)
Return of capital		(212)	(251)
Total distributions to holders of redeemable units		(7,069)	(6,290)
Redeemable unit transactions			
Proceeds from redeemable units issued		65,543	86,950
Reinvestments of distributions to holders of redeemable units		6,981	6,193
Redemption of redeemable units		(87,268)	(89,783)
Net increase (decrease) from redeemable unit transactions		(14,744)	3,360
Net increase (decrease) in net assets attributable to holders of redeemable units		(23,728)	21,437
Net assets attributable to holders of redeemable units at end of period	7	\$ 462,450	\$ 486,178

PwC observation. Consistent with IAS 1.6 and NI 81-106, Sample Fund has presented a statement of changes in net assets attributable to holders of redeemable units, rather than a statement of changes in equity (as it has none).

Statements of cash flows

(All amounts in thousands)

	Note	Year ended December 31,	
		2014	2013
Cash flows from operating activities			
Increase (decrease) in net assets attributable to holders of redeemable units		\$ (1,915)	\$ 24,367
Adjustments for:			
Foreign exchange loss (gain) on cash		12	(29)
Net realized gain on sale of investments and derivatives		(14,804)	(4,471)
Net change in unrealized appreciation (depreciation) of investments and derivatives		23,923	(13,586)
Purchases of investments		(298,158)	(266,222)
Proceeds from sale and maturity of investments		313,911	262,454
Interest receivable		(821)	379
Dividends receivable		(347)	(31)
Accrued liabilities		(71)	38
Net cash from operating activities		21,730	2,899
Cash flows used in financing activities			
Distributions paid to holders of redeemable units, net of reinvested distributions		(116)	(58)
Proceeds from issuances of redeemable units		65,734	86,888
Amounts paid on redemption of redeemable units		(87,207)	(89,760)
Net cash used in financing activities		(21,589)	(2,930)
Foreign exchange loss (gain) on cash		(12)	29
Net increase (decrease) in cash		141	(31)
Cash at beginning of year		6	8
Cash at end of year		\$ 135	\$ 6
Interest received		9,147	10,446
Dividends received, net of withholding taxes		6,369	5,315

PwC observation. IAS 1.10(d) defines a complete set of financial statements to include a statement of cash flows. Under Canadian GAAP, many investment funds did not present a statement of cash flows as a result of an exemption in CICA Handbook Section 1540, *Cash Flow Statements*. Sample Fund has used the indirect method to present its cash flows from operating activities however, investment funds may choose to apply the direct method instead. IAS 7 requires the following specific items to be disclosed separately in the statement of cash flows, which we expect to apply to most investment funds: interest received, dividends received, interest paid, and income taxes paid. Additionally, the components of cash and cash equivalents must be provided, as illustrated in Appendix A of IAS 7 and may include items such as cash on hand and balances on deposit with banks and short-term investments. Sample Fund's cash balance consists only of deposits with financial institutions.

In some cases, IAS 7.22 - 24 may permit certain cash flows to be presented on a net basis. However, Part 3.4 of NI 81-106 requires that separate line items be presented for cash flows related to: proceeds on disposals of portfolio assets, payments for the purchase of portfolio assets, proceeds for the issuance of units aggregate amounts paid on redemption of units and compensation paid in respect of the sale of units. As a result, investment funds may be required to present such cash flows on a gross basis, even in circumstances where IFRS would permit them to be presented on a net basis.

Schedule of investment portfolio

December 31, 2014

No. of shares or units / par value	Description	Cost	Carrying value
Equities			
Canadian equities			
384,040	AAA Inc.	\$ 8,449,188	\$ 10,748,468
110,833	BBB Corp.	7,287,094	10,197,711
290,908	CCC Ltd.	9,494,372	11,081,914
446,012	DDD Co.	8,624,060	10,849,931
2,270,716	EEE Corp.	9,788,064	11,200,121
209,720	FFF Ltd.	6,967,694	8,986,584
299,068	GGG Corp.	8,744,842	11,491,272
391,124	HHH Inc.	6,106,373	8,238,164
173,600	III Ltd.	9,081,726	12,270,263
1,056,324	JJJ Co.	8,907,627	13,439,065
186,524	KKK Inc.	6,768,117	9,410,132
340,120	LLL Corp.	6,207,565	8,658,849
1,085,756	MMM Enterprises	8,065,230	9,750,838
227,112	NNN Corp.	9,152,961	11,018,598
63,584	OOO Inc.	4,304,502	3,926,721
	Total Canadian equities	117,949,415	151,268,631
U.S. equities			
25,070	PPP Corp.	2,393,223	2,609,669
104,408	QQQ Inc.	6,943,521	4,433,735
169,388	RRR Corp.	4,332,692	4,626,236
40,382	SSS Ltd.	9,398,635	6,919,489
100,439	TTT Inc., Private Placement	1,149,991	1,439,283
205,898	UUU Ltd.	9,424,993	7,485,798
410,532	VVV Inc.	13,267,272	8,914,770
155,636	WWW Co.	2,489,605	2,675,228
105,928	XXX Ltd.	10,829,925	7,933,695
33,278	YYY Inc.	5,740,087	5,969,624
196,964	ZZZ Ltd.	4,325,859	4,392,651
103,586	ABC Co.	6,103,579	7,627,616
185,458	DEF Ltd.	6,825,291	6,218,904
26,674	GHI Inc.	4,352,775	4,553,618
82,356	JKL Ltd.	4,144,322	5,225,726
184,442	MNO Co.	8,370,403	7,165,752
	Total U.S. equities	100,092,173	88,191,794
	Total equities	218,041,588	239,460,425
Bonds			
Canadian government bonds			
Government of Canada			
30,000,000	3.95% due June 01, 2017	29,214,259	30,428,388
32,000,000	4.00% due June 01, 2025	32,359,998	33,929,619
34,000,000	5.75% due June 01, 2033	34,345,443	37,510,793
Province of British Columbia			
9,000,000	3.95% due October 31, 2019	9,227,252	9,424,644
18,000,000	4.10% due January 15, 2023	19,171,785	18,843,463
7,000,000	4.70% due June 18, 2037	7,894,322	8,000,932
Province of Ontario			
32,000,000	4.40% due June 02, 2019	32,523,429	35,012,339
22,000,000	6.50% due March 08, 2029	25,433,212	25,859,622
	Total Canadian government bonds	190,169,700	199,009,800

Sample Fund

Par value / troy ounces	Description	Cost	Carrying value
U.S. convertible corporate bonds			
	PQR Co. (USD)		
2,000,000	5.40% due April 09, 2019	\$ 2,057,225	\$ 2,393,402
	STU Ltd. (USD)		
2,400,000	6.40% due October 31, 2035	2,639,322	2,833,024
	VWX Inc. (USD)		
3,500,000	6.09% due August 21, 2016	3,711,329	3,686,414
	YYZ Ltd. (USD)		
400,000	6.75% due November 25, 2017	4,052,750	3,986,456
	PLO Co. (USD)		
2,000,000	4.75% due March, 2018	2,263,374	2,250,704
Total U.S. convertible corporate bonds		14,724,000	15,150,000
Total bonds		204,893,700	214,159,800
Short-term investments			
	Government of Canada treasury bills		
2,000,000	0.78% due February 16, 2015	1,990,468	1,990,468
1,700,000	0.80% due March 01, 2015	1,684,891	1,684,891
2,200,000	0.82% due March 15, 2015	2,164,540	2,164,540
Total short-term investments		5,839,899	5,839,899
Total non-derivative financial assets		428,775,187	459,460,124
Investment in gold bullion			
107	Gold bullion	176,909	176,857
Total investment in gold bullion		176,909	176,857
Derivative assets and liabilities (1)		-	532,101

(1) Derivative assets and liabilities

Foreign exchange forward contracts

Settlement Date	Currency to be delivered		Currency to be received		Contract Price	CAD Appreciation (Depreciation)
	Face value (local)	Fair value as at December 31, 2014	Face value (local)	Fair value as at December 31, 2014		
January 31, 2015	54,403,793	USD \$ 55,436,812	55,999,999	CAD \$ 55,999,999	1.02934	\$ 563,187
January 31, 2015	4,421,518	CAD \$ 4,421,518	4,308,620	USD \$ 4,390,432	1.02620	(31,086)
Total		\$ 59,858,330		\$ 60,390,431		\$ 532,101
Total number of contracts:		2				

PwC observation. Under Canadian GAAP, investment funds typically presented a "statement of investment portfolio" as required by NI 81-106. IAS 1.10 prescribes specific statements which are included in complete financial statements and does not include a statement of investment portfolio. Sample Fund has presented a "schedule of investment portfolio" as supplemental information within the financial statements. This presentation is permitted by NI 81-106 Companion Policy Part 2.5.1. As this information is not required by IFRS, Sample Fund has determined that comparative information for this schedule would not be relevant to an understanding of its financial statements. Sample Fund has provided all disclosures required by IFRS 7 and IFRS 13 (e.g. including concentration risk disclosures) within the notes to the financial statements, rather than including some in the schedule of investments as it did previously under Canadian GAAP.

NI 81-106 requires investment funds to present the "current value" of each portfolio asset, which is defined as the value as determined in accordance with GAAP (i.e. the carrying value). Under Canadian GAAP, all portfolio assets were measured at fair value in accordance with AcG-18 and therefore, many investment funds previously disclosed fair value as the current value. NI 81-106 requires that investment funds classify portfolio assets on the schedule of investment portfolio into categories that reflect their investment objectives. Sample Fund has classified its portfolio assets into categories based on geography and investment type however, the appropriate presentation format will depend on each investment fund's specific portfolio and investment objectives.

If presenting financial statements of multiple investment funds in a single publication, consideration needs to be given to the binding requirements in Part 7.1(1) of NI 81-106, which states that "...an investment fund must not bind its financial statements with the financial statements of another investment fund unless all information relating to the investment fund is presented together and not intermingled with information relating to the other investment fund."

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

1. General information

Sample Fund (the Fund) is an open-ended mutual fund trust established under the laws of Ontario and is governed by the Declaration of Trust dated January 1, 2000 (the Declaration of Trust), as amended from time to time. The address of the Fund's registered office is 18 York Street, Toronto, Ontario. The Fund invests in equity securities of Canadian and U.S. companies, Canadian and U.S. government and high-grade corporate debt, Canadian short-term government debt securities and gold bullion. The financial statements are presented in Canadian dollars (CAD). These financial statements were authorized for issue by XYZ Capital Limited (the Manager) on February 15, 2015.

PwC observation. IAS 1.138 requires disclosure of the following items, if not disclosed elsewhere in information published with the financial statements:

- The domicile and legal form of the entity, its country of incorporation and the address of its registered office or principal place of business, if different;
- A description of the entity's operations and its principal activities;
- The name of the parent and ultimate parent of the group (Sample Fund has none); and
- For limited life entities, information about the length of the entity's life.

In practice, entities often present this information as the first note notwithstanding the IAS 1.114 recommendation to include non-financial information after financial information. Certain investment funds may have limited lives and therefore, will be required to disclose the timing or conditions giving rise to their termination.

2. Basis of presentation and adoption of IFRS

These financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB). The Fund adopted this basis of accounting in 2014 as required by Canadian securities legislation and the Canadian Accounting Standards Board. Previously, the Fund prepared its financial statements in accordance with Canadian generally accepted accounting principles as defined in Part V of the CICA Handbook (Canadian GAAP). The Fund has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2013 and throughout all periods presented, as if these policies had always been in effect. Note 11 discloses the impact of the transition to IFRS on the Fund's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Fund's financial statements for the year ended December 31, 2013 prepared under Canadian GAAP.

PwC observation. The illustrative financial statements of Sample Fund are for its first annual IFRS financial statements. As required by IAS 1.16, Sample Fund has included disclosure of an explicit and unreserved statement that the Fund's financial statements comply with IFRS. Certain investment funds will be required to prepare first-time IFRS interim financial statements during the year of adoption in 2014. As many investment funds provide substantially the same information and disclosures in their interim and annual financial statements, the issues presented in these illustrative financial statements may also provide a basis for preparation of interim financial statements.

IFRS is required to be applied by investment funds to interim and annual financial statements relating to annual periods beginning on or after January 1, 2014. This includes funds launched after January 1, 2014 with year-ends before December 31, 2014 (i.e. short years) having to prepare financial statements in compliance with IFRS, even where existing funds within the same fund family are not required to adopt IFRS until the following year. This could require the preparation of separate financial statement 'books' for fund families applying both CGAAP and IFRS during the transition period.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

PwC observation ...continued

For example, if a group of funds has a June 30th year-end, it would ordinarily expect to begin its first year reporting under IFRS on July 1, 2014, which is the first annual period beginning on or after January 1, 2014. However, if a new fund within the group is launched on February 1, 2014, then the new fund will be required to apply IFRS in its financial statements for the period ended June 30, 2014 since this annual period (despite that it is shorter than a calendar year) began subsequent to January 1, 2014.

3. Summary of significant accounting policies

Financial instruments

PwC observation. As discussed in Appendix A, the framework for classifying and measuring financial assets depends on whether an entity applies IAS 39 on transition to IFRS, or early adopts IFRS 9. At its July 2013 meeting, the IASB voted tentatively to defer the mandatory effective date of IFRS 9 and to leave the effective date open pending finalization of the project. IFRS 9 is still available for early adoption however, we expect many funds will choose to apply IAS 39 instead on transition. Investment funds will need to determine which standard is best to apply on transition based on their capital structure and investments that they hold, and in some cases may still choose to early adopt IFRS 9. Assessing which standard is better for an investment fund to adopt on transition to IFRS depends on the fund's individual facts and circumstances.

The Fund recognizes financial instruments at fair value upon initial recognition, plus transaction costs in the case of financial instruments measured at amortized cost. Regular way purchases and sales of financial assets are recognized at their trade date. The Fund's investments and derivative assets and liabilities are measured at fair value through profit or loss (FVTPL), including certain investments in debt securities which have been designated at FVTPL. The Fund's obligation for net assets attributable to holders of redeemable units is presented at the redemption amount. All other financial assets and liabilities are measured at amortized cost. Under this method, financial assets and liabilities reflect the amount required to be received or paid, discounted, when appropriate, at the contract's effective interest rate. The Fund's accounting policies for measuring the fair value of its investments and derivatives are identical to those used in measuring its net asset value (NAV) for transactions with unitholders.

PwC observation. Consistent with the presentation in Example 7 of IAS 32, we expect many investment funds with no equity will present the obligation for net assets attributable to holders of redeemable units at the redemption amount.

Interest income from investments in bonds and short-term investments is recognized at the effective interest rate. Interest receivable is shown separately in the statement of financial position based on the debt instruments' stated rates of interest. Dividends are recognized as income on the ex-dividend date. The cost of investments is determined using the average cost method.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. In the normal course of business, Sample Fund enters into various master netting agreements or similar agreements that do not meet the criteria for offsetting in the statement of financial position but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or termination of the contracts.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and marketable securities) are based on quoted market prices at the close of trading on the reporting date. The Fund uses the last traded market price for both financial assets and financial liabilities where the last traded price falls within that day's bid-ask spread. In circumstances where the last traded price is not within the bid-ask spread, the Manager determines the point within the bid-ask spread that is most representative of fair value based on the specific facts and circumstances. The Fund's policy is to recognize transfers into and out of the fair value hierarchy levels as of the date of the event or change in circumstances giving rise to the transfer.

The fair value of financial assets and liabilities that are not traded in an active market, including over-the-counter derivatives, is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and others commonly used by market participants and which make the maximum use of observable inputs. Refer to Note 5 for further information about the Fund's fair value measurements.

PwC observation. Sample Fund has determined that no significant changes arose in the fair value of its investments between the closing of foreign exchanges and the date at which its financial statements are presented. Investment funds which hold significant positions in foreign securities will need to adopt accounting policies to address potential differences which could arise.

It is possible that the close price used for valuation of an investment may fall outside of the bid/ask spread. Where material, the difference will need to be adjusted to the point within the spread that is most representative of fair value as required by IFRS 13.

Investment funds will need to consider how such outliers will be monitored and identified and develop appropriate processes and procedures, including the impact on NAV pricing, if any. In the rare circumstance that fair value under IFRS 13 differs from the value used to calculate NAV, disclosure of a reconciliation similar to that under previous Canadian GAAP will need to be presented as required by Part 3.6 of NI 81-106.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

Impairment of financial assets

At each reporting date, the Fund assesses whether there is objective evidence that a financial asset at amortized cost is impaired. If such evidence exists, the Fund recognizes an impairment loss as the difference between the amortized cost of the financial asset and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. Impairment losses on financial assets at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

Foreign currency translation

The Fund's subscriptions and redemptions are denominated in CAD, which is also its functional and presentation currency. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates that transactions occur. Foreign currency assets and liabilities denominated in a foreign currency are translated into the functional currency using the exchange rate prevailing at the measurement date. Foreign exchange gains and losses relating to cash are presented as 'Foreign exchange gain (loss) on cash' and those relating to other financial assets and liabilities are presented within 'Net realized gain' and 'Change in unrealized appreciation (depreciation)' in the statement of comprehensive income.

PwC observation. Often, the determination of an investment fund's functional currency will be straightforward as the overwhelming majority of the fund's investments, income and costs will be in the same currency. However, in some cases these indicators may be mixed and judgment will be necessary to determine the functional currency that most faithfully represents the economic effects of the underlying transactions, events and conditions. Among other factors, this will typically involve consideration of the currency in which the fund has raised capital, in which currency it is trying to achieve returns and the currency of funds with which it intends to compete. For investment entities with subsidiaries that provide services and are required to be consolidated, the functional currencies will need to be determined for each subsidiary and could differ from the (parent) fund itself.

Cash

Cash is comprised of deposits with financial institutions.

Investments in gold bullion

The Fund holds gold bullion which is carried at FVTPL based on the price quoted on the London Metals Exchange (LME).

PwC observation. Sample Fund has a position in gold bullion, which it holds directly. Absent explicit guidance to address investments in gold bullion held by investment funds under IFRS, Sample Fund has developed its accounting policy by analogy to IAS 39. As a result, Sample Fund accounts for its investment in gold bullion at FVTPL. (If Sample Fund had early adopted IFRS 9, a similar analogy could have been made.)

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

Increase (decrease) in net assets attributable to holders of redeemable units per unit

The increase (decrease) in net assets attributable to holders of redeemable units per unit is calculated by dividing the increase (decrease) in net assets attributable to holders of redeemable units by the weighted average number of units outstanding during the period. Refer to Note 10 for the calculation.

Taxation

The Fund qualifies as a mutual fund trust under the Income Tax Act (Canada). All of the Fund's net income for tax purposes and sufficient net capital gains realized in any period are required to be distributed to unitholders such that no income tax is payable by the Fund. As a result, the Fund does not record income taxes. Since the Fund does not record income taxes, the tax benefit of capital and non-capital losses has not been reflected in the statement of financial position as a deferred income tax asset. As at December 31, 2014, the Fund had \$9,491 of unused capital losses which have no expiry.

The Fund currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income and gains are recorded on a gross basis and the related withholding taxes are shown as a separate expense in the statement of comprehensive income.

PwC observation. Sample Fund is required to distribute sufficient income to unitholders annually, to eliminate any tax liability which may otherwise arise. As a result, Sample Fund has determined that in substance it is not taxable and therefore, IAS 12 does not apply. We expect most mutual fund corporations will reach a similar conclusion on those types of income (e.g. capital gains or similar refundable taxes) that are flowed through and not taxable to the corporation. As a result, tax outcomes under IFRS are likely to be similar to existing Canadian GAAP for most investment funds.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

Investments in associates, joint ventures and subsidiaries

PwC observation. Effective January 1, 2014, IFRS 10 requires “investment entities” (as defined therein) to account for investments in subsidiaries at FVTPL, rather than consolidating them. In order to qualify as an investment entity, the investment fund must: (a) obtain funds from one or more investors for the purpose of providing those investor(s) with investment management services; (b) commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and (c) measure and evaluate the performance of substantially all of its investments on a fair value basis. The standard includes substantial guidance to assist in determining when these criteria have been met and in many circumstances, significant judgment will be required. Where significant judgments have been made, investment funds will need to provide disclosure about them, as required by IAS 1 and IFRS 12. Additionally, IFRS 12 requires specific disclosures for investment entities which account for their investments in subsidiaries at fair value.

Sample Fund doesn't have any investments subject to control, joint control, or significant influence. If an investment fund does hold such investments, it will need to adopt and disclose an appropriate accounting policy. IAS 28 allows a “venture capital organization, or a mutual fund, unit trust and similar entities including investment-linked insurance funds” to account for investments in associates and joint ventures at FVTPL, rather than applying the equity method. An example of an accounting policy for investment funds with these types of investments is as follows:

“Subsidiaries are all entities, including investments in other investment entities, over which the Fund has control. The Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Fund has determined that it is an investment entity and as such, it accounts for subsidiaries at fair value with the exception of any subsidiaries which provide services related to the Fund's investment activities, which are consolidated. Associates and joint ventures are investments over which the Fund has significant influence or joint control, all of which have been designated at fair value through profit or loss.”

IFRS 12 requires specific disclosures related to investments in subsidiaries, associates, joint ventures and unconsolidated structured entities. These disclosures apply whenever an entity holds these types of investments and are likely to apply to funds of funds when the investor fund has significant influence, joint control or control over one or more underlying fund, or when the underlying fund is a structured entity. IFRS 12.21A exempts investment entities from having to provide certain disclosures, including summarized financial information, for investments in associates and joint ventures. As a result, investment funds with these types of investments will need to determine whether or not they meet the ‘investment entity’ definition in IFRS 10, in order to qualify for the disclosure exemption. This determination is also necessary in order to qualify for the exemption from certain disclosures about interests in unconsolidated structured entities required by IFRS 12.25A.

The standard prescribes disclosures when an investment fund becomes, or ceases to be, an investment entity, including the total fair value of subsidiaries at the date of change that cease to be consolidated, the total gain or loss recorded and the line in which the gain or loss recognized in the statement of comprehensive income. Specific disclosures are also required about investments in consolidated and unconsolidated structured entities, which includes ‘some investment funds’. [IFRS 12.B23] A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. [IFRS 12 Appendix A] Not all investment funds are structured entities, and assessing which ones are will depend on the facts and circumstances specific to each underlying fund.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

PwC observation ...continued

The following example illustrates the disclosure which Sample Fund may have included if it had investments in associates, joint ventures and subsidiaries.

The Fund has determined that it meets the definition of ‘investment entity’ and as a result, it measures subsidiaries, other than those which provide services to the Fund, at FVTPL. Subsidiaries which provide services to the Fund are consolidated. An investment entity is an entity that: obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. The most significant judgment that the Fund has made in determining that it meets this definition is that fair value is used as the primary measurement attribute to measure and evaluate the performance of substantially all of its investments.

Information about the Fund’s interests in unconsolidated subsidiaries, joint ventures and associates are as follows:

Name	Relationship	Principal place of business	Country of incorporation	Ownership interest %	Voting rights %
ABC Co.*	Subsidiary	Canada	Canada	73%	73%
DEF LP	Joint venture	United States	United States	33%	50%
GHI Inc.	Associate	China	Barbados	26%	20%

*This information is also required for investments controlled by investment entity subsidiaries. For example, if Sample Fund had a controlling interest in another investment entity, Fund B, which controlled OpCo, then Sample Fund would be required to include disclosures about OpCo in its own financial statements, despite that it is not consolidating Fund B. This disclosure could be satisfied by providing disclosure directly in Sample Fund’s financial statements, or by including the financial statements of Fund B, which would include the required disclosures about OpCo, together with its own financial statements. [IFRS 12.19C]

ABC Co. is subject to a term loan facility with Big Bank Financial Inc. in the amount of \$30 million, pursuant to which it cannot make cash distributions to owners in excess of 30% of free cash flow (as defined therein) each year, including repayments of shareholder loans. This restriction on distributions will continue for the term of the facility, which ends December 15, 2015, at which point it is expected that ABC Co. will have repaid the facility in full. During the year, Sample Fund provided an additional capital contribution of \$1.6 million to ABC Co., in order to avoid a breach of its debt to equity ratio covenant on its term loan facility. Sample Fund has committed to ABC Co. that it will assist in obtaining additional financing prior to December 15, 2015, which may involve additional capital contributions or guarantees being provided by Sample Fund.

GHI Inc. is a structured entity over which Sample Fund has significant influence. NWP Limited is the holder of Series A Convertible Debentures of GHI Inc. with a face value of \$2,000,000 which are subject to a put agreement with Sample Fund. Pursuant to the put agreement, Sample Fund may be required to purchase the Series A Convertible Debentures for consideration equal to the principal plus accrued but unpaid interest at the date of exercise. The put option is exercisable only if GHI Inc.’s credit rating falls below BBB-, and its current credit rating is A at December 31, 2014.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

Accounting standards issued but not yet adopted

PwC observation. There are no standards which have been issued and not yet adopted by Sample Fund upon transition to IFRS. Prior to the issuance of their first-time IFRS financial statements, investment funds will need to ascertain whether any new standards have been issued and provide the relevant disclosures required by IAS 8.30 – 31.

4. Critical accounting estimates and judgments

The preparation of financial statements requires management to use judgment in applying its accounting policies and to make estimates and assumptions about the future. The following discusses the most significant accounting judgments and estimates that the Fund has made in preparing the financial statements:

Fair value measurement of derivatives and securities not quoted in an active market

The Fund holds financial instruments that are not quoted in active markets, including derivatives. Fair values of such instruments are determined using valuation techniques and may be determined using reputable pricing sources (such as pricing agencies) or indicative prices from market makers. Broker quotes as obtained from the pricing sources may be indicative and not executable or binding. Where no market data is available, the Fund may value positions using its own models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. The models used to determine fair values are validated and periodically reviewed by experienced personnel of the Manager, independent of the party that created them. The models used for private equity securities are based mainly on earnings multiples adjusted for a lack of marketability as appropriate.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require the Manager to make estimates. Changes in assumptions about these factors could affect the reported fair values of financial instruments. The Fund considers observable data to be market data that is readily available, regularly distributed and updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. Refer to Note 5 for further information about the fair value measurement of the Fund's financial instruments.

Classification and measurement of investments and application of the fair value option

In classifying and measuring financial instruments held by the Fund, the Manager is required to make significant judgments about whether or not the business of the Fund is to invest on a total return basis for the purpose of applying the fair value option for financial assets under IAS 39, *Financial Instruments – Recognition and Measurement* (IAS 39). The most significant judgments made include the determination that certain investments are held-for-trading and that the fair value option can be applied to those which are not.

PwC observation. IAS 1.122 requires disclosure of the critical judgments (apart from estimates) which had the most significant impact on the amounts recognized in the financial statements. Sample Fund has determined that this includes its judgment about the classification of investments under IAS 39 and applicability of the fair value option to its investments which are not held-for-trading based on IAS 39.AG4I(a). Other judgments which may often be critical and require disclosure include those about: the business model and cash flow characteristics for classification of financial assets under IFRS 9 (if early adopted), determination of accounting policies for significant positions in gold bullion or other precious metals held directly by exchange-traded or other investment funds, determination of whether or not the fund meets the investment entity definition in IFRS 10, taxes and the application of IAS 12 and the determination of functional currency when indicators are mixed.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

5. Risks associated with financial instruments

Risk factors

The Fund's activities expose it to a variety of risks associated with financial instruments, as follows: credit risk, liquidity risk and market risk (including price risk, foreign exchange risk, and interest rate risk). The Fund's overall risk management program seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. All investments result in a risk of loss of capital.

Credit risk

The Fund is exposed to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The majority of the credit risk to which the Fund is exposed arises from its investments in debt securities. The Fund's policy to manage credit risk is to invest in debt securities that have a minimum credit rating of BBB designated by Standard & Poor's (S&P), with no more than 50% of the debt portfolio rated less than AA. The analysis below summarizes the credit quality of the Fund's debt portfolio at December 31, 2014 and 2013 and January 1, 2013.

Credit rating	Percentage of total debt securities		
	December 31, 2014	December 31, 2013	January 1, 2013
AAA	65.44	61.43	62.81
AA	28.76	31.59	29.43
A	3.10	3.90	5.55
BBB	2.70	3.08	2.21
Total	100.00	100.00	100.00

The Fund is also exposed to counterparty credit risk on forward contracts. The counterparty credit risk for forwards contracts is managed by using counterparties with minimum credit ratings from S&P of A, limiting the term of forward contracts to 365 days, and limiting the mark-to-market exposure to any one counterparty to 10% of the net assets attributable to holders of redeemable units. The credit rating of the counterparties to the Fund's forward contracts was AA as at December 31, 2014 (December 31, 2013 – AA, January 1, 2013 – AA).

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The credit risk related to the associated receivables is considered limited, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation. However, there are risks involved in dealing with custodians or prime brokers who settle trades and in rare circumstances, the securities and other assets deposited with the custodian or broker may be exposed to credit risk with regard to such parties. In addition, there may be practical problems or time delays associated with enforcing the Fund's rights to its assets in the case of an insolvency of any such party.

The Fund also engages in securities lending transactions. The credit risk related to securities lending transactions is limited by the fact that the value of cash or securities held as collateral by the Fund in connection with these transactions is at least 102 percent of the fair value of the securities loaned. The collateral and loaned securities are marked to market on each business day. As at December 31, 2014, the aggregate dollar value of portfolio securities lent and collateral held under securities transactions was nil (December 31, 2013: nil; January 1, 2013: nil).

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities. The Fund is exposed to daily cash redemptions. The Fund's policy is to maintain at least 85% of its assets in liquid investments (i.e. investments that can be readily disposed of through market facilities). In addition, the Fund maintains sufficient cash on hand to fund anticipated redemptions and can borrow up to 5% of its NAV for the purposes of funding redemptions.

The Fund may invest in derivatives, debt securities and unlisted equity investments that are not traded in an active market. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at amounts which approximate their fair values, or be able to respond to specific events such as deterioration in the creditworthiness of any particular issuer. In accordance with the Fund's policy, the Manager monitors the Fund's liquidity position on a daily basis. The tables below analyze the Fund's financial liabilities into relevant maturity groupings based on the remaining period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

December 31, 2014			
Financial liabilities	On demand	< 3 months	Total
Redemptions payable	\$-	\$478	\$478
Distributions payable	-	49	49
Accrued liabilities	-	732	732
Redeemable units	462,450	-	462,450
Derivative liabilities	-	59,858	59,858

December 31, 2013			
Financial liabilities	On demand	< 3 months	Total
Payable for investments purchased	\$-	\$7,055	\$7,055
Redemptions payable	-	417	417
Distribution payable	-	77	77
Accrued liabilities	-	803	803
Redeemable units	486,178	-	486,178
Derivative liabilities	-	-	-

January 1, 2013			
Financial liabilities	On demand	< 3 months	Total
Redemptions payable	\$-	\$394	\$394
Distributions payable	-	38	38
Accrued liabilities	-	765	765
Redeemable units	464,741	-	464,741
Derivative liabilities	-	12,982	12,982

Redeemable units are redeemable on demand at the holder's option. However, the Manager does not expect that the contractual maturity disclosed above will be representative of the actual cash outflows, as holders of these instruments typically retain them for a longer period.

PwC observation. IFRS 7 requires disclosure of the maturity of financial liabilities. Amounts to be disclosed are the undiscounted contractual cash flows. IFRS 7.B11B - F clarify that for derivatives this includes: prices specified in forward agreements to purchase financial assets for cash; net amounts for pay-floating/receive-fixed interest rate swaps for which net cash flows are exchanged; and contractual amounts to be exchanged in a derivative financial instrument (e.g. a currency swap) for which gross cash flows are exchanged. As Sample Fund's forward contracts are settled by delivery / receipt of the currencies, it has included the notional amounts to be exchanged in its maturity analysis.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

Market risk

The Fund's investments are subject to market risk which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The following include sensitivity analyses that show how the net assets attributable to holders of redeemable units would have been affected by a reasonably possible change in the relevant risk variable at each reporting date. In practice, the actual results may differ and the differences could be material.

PwC observation. Consistent with Canadian GAAP, IFRS 7 requires disclosure for each type of market risk showing how profit or loss would be affected by changes in the relevant risk variables that were reasonably possible at the measurement date. Judgment will be required to determine the magnitude of changes which are considered reasonably possible and which benchmarks are relevant based on the composition of the specific investment fund.

(a) Currency risk

The Fund invests in monetary assets denominated in currencies other than CAD. These investments result in currency risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund enters into foreign exchange forward contracts to reduce its foreign currency exposure.

PwC observation. IFRS 7 considers the currency risk relating to non-monetary assets (including equity instruments) and liabilities to be a component of price risk. For investment funds, currency risk is often most meaningful when considered based on the portfolio overall, including non-monetary portfolio assets. Sample Fund has complied with the requirements of IFRS 7 and provided meaningful information by disclosing the exposures from monetary and non-monetary items, as well as its net exposure overall.

The table below indicates the foreign currencies to which the Fund had significant exposure at December 31, 2014 and 2013, and at January 1, 2013, in CAD terms, and the notional amounts of foreign exchange forward contracts. The table also illustrates the potential impact on the net assets attributable to holders of redeemable units if CAD had strengthened or weakened by 5% in relation to each of the other currencies, with all other variables held constant.

December 31, 2014	Exposure			Impact on net assets attributable to holders of redeemable units		
	Currency	Monetary	Non-monetary	Total	Monetary	Non-monetary
United States Dollar	(\$34,626)	\$88,368	\$53,742	(\$1,731)	\$4,418	\$2,687
% of net assets attributable to holders of redeemable units	(7.48)	19.10	11.62	(0.38)	0.96	0.58

December 31, 2013	Exposure			Impact on net assets attributable to holders of redeemable units		
	Currency	Monetary	Non-monetary	Total	Monetary	Non-monetary
United States Dollar	\$20,636	\$93,071	\$113,707	\$1,032	\$4,653	\$5,685
% of net assets attributable to holders of redeemable units	4.24	19.15	23.39	0.21	0.96	1.17

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

January 1, 2013	Exposure			Impact on net assets attributable to holders of redeemable units		
	Currency	Monetary	Non-monetary	Total	Monetary	Non-monetary
United States Dollar	\$3,523	\$87,119	\$90,642	\$176	\$4,356	\$4,532
% of net assets attributable to holders of redeemable units	0.75	18.75	19.50	0.04	0.94%	0.98%

b) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund holds securities with fixed interest rates that expose the Fund to fair value interest rate risk. The Fund's policy requires the Manager to manage this risk by calculating and monitoring the average effective duration of the portfolio of these securities. The Fund also holds a limited amount of cash subject to variable interest rates which exposes the Fund to cash flow interest rate risk.

The Fund's policy is to hold no more than 60% of its net assets attributable to holders of redeemable units in interest-bearing assets and to maintain an average effective duration of the fixed interest portfolio within 30% of the average duration of the ABC Bank short-duration bond index. The table below summarizes the Fund's exposure to interest rate risk as at December 31, 2014 and 2013 and January 1, 2013, by remaining term to maturity. The table also illustrates the potential impact on the net assets attributable to holders of redeemable units if the prevailing levels of market interest rates changed by 0.25%, assuming a parallel shift in the yield curve with all other variables held constant.

Term to maturity	Total exposure		
	December 31, 2014	December 31, 2013	January 1, 2013
1-5 years	\$87,182	\$95,673	\$83,297
5-10 years	18,844	20,431	22,549
10+ years	108,134	104,382	103,032
Total	\$214,160	\$220,486	\$208,878
Impact on net assets attributable to holders of redeemable units	\$1,320	\$1,324	1,287
Impact on net assets attributable to holders of redeemable units %	0.30	0.27	0.28

(c) Price risk

The Fund is exposed to price risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk). The Fund's investments are subject to the risk of changes in the prices of equity securities, convertible bonds and gold bullion. The Fund's policy is to manage price risk through diversification and selection of investments within specified limits established by the investment guidelines within the Declaration of Trust. Between 40% and 60% of the net assets attributable to holders of redeemable units is expected to be invested in equity securities. The Fund's policy also limits individual equity securities to no more than 5% of net assets attributable to holders of redeemable units. The Fund may invest up to 10% of net assets attributable to holders of redeemable units in convertible bonds and 10% of net assets attributable to holders of redeemable units in gold bullion and gold-linked notes. The majority of the Fund's equity investments are publicly traded and are included in the S&P 500 Index or the S&P/TSX 60 Index. The Fund's policy requires that the overall market position is monitored on a daily basis by the Manager.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

As at December 31, 2014, if relevant benchmark indexes had increased or decreased by 5%, with all other variables held constant, the net assets attributable to holders of redeemable units of the Fund would have increased or decreased by approximately \$12,171 (December 31, 2013: \$14,439; January 1, 2013: \$12,714) representing 2.63% of net assets attributable to holders of redeemable units (December 31, 2013: 2.97%; January 1, 2013: 2.74%).

Concentration risk

Concentration risk arises as a result of the concentration of exposures within the same category, whether it is geographical location, product type, industry sector or counterparty type. The following is a summary of the Fund's concentration risk:

Market segment	December 31, 2014	December 31, 2013	January 1, 2013
Basic materials	9.2%	8.7%	10.1%
Communication	13.6%	15.5%	12.1%
Energy	22.3%	18.8%	17.3%
Financial	11.8%	14.7%	18.3%
Healthcare	10.4%	11.2%	9.4%
Industrial	0.6%	2.1%	2.9%
Technology	17.5%	21.1%	23.4%
Utilities	14.6%	7.9%	6.5%

Capital risk management

Units issued and outstanding are considered to be the capital of the Fund. The Fund does not have any specific capital requirements on the subscription and redemption of units, other than certain minimum subscription requirements. Unitholders are entitled to require payment of the net asset value per unit of that Fund for all or any of the units of such unitholder by giving written notice to the Manager. The written notice must be received no later than 4:00 p.m., EST, on the valuation day upon which the units are to be redeemed. Additionally, the notice must be irrevocable and the signature thereon must be guaranteed by a Canadian chartered bank, a trust company or an investment dealer acceptable to the Manager. The units are redeemable for cash equal to a pro rata share of the Fund's net asset value (NAV).

PwC observation. While certain of this information is not required by IFRS, Sample Fund has provided the disclosure above in order to satisfy its disclosure requirements under Part 10 of NI 81-102.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

Fair value measurement

The Fund classifies fair value measurements within a hierarchy which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 Inputs are unobservable for the asset or liability.

If inputs of different levels are used to measure an asset's or liability's fair value, the classification within the hierarchy is based on the lowest level input that is significant to the fair value measurement. The following table illustrates the classification of the Fund's assets and liabilities measured at fair value within the fair value hierarchy as at December 31, 2014, December 31, 2013 and January 1, 2013:

As at December 31, 2014	Level 1	Level 2	Level 3	Total
Equities	\$238,021	\$-	\$1,439	\$239,460
Bonds	-	214,160	-	214,160
Short-term investments	-	5,840	-	5,840
Gold bullion	-	177	-	177
Derivative assets	-	563	-	563
Derivative liabilities	-	(31)	-	(31)

As at December 31, 2013	Level 1	Level 2	Level 3	Total
Equities	\$264,039	\$-	\$949	\$264,988
Bonds	-	220,486	-	220,486
Short-term investments	-	6,100	-	6,100
Gold bullion	-	522	-	522

As at January 1, 2013	Level 1	Level 2	Level 3	Total
Equities	\$250,078	\$-	\$-	\$250,078
Bonds	-	208,878	-	208,878
Short-term investments	-	4,158	-	4,158
Gold bullion	-	85	-	85
Derivative assets	-	17	-	17

All fair value measurements above are recurring. The carrying values of cash, subscriptions receivable, interest receivable, payable for investments purchased, redemptions payable, distributions payable, accrued liabilities and the Fund's obligation for net assets attributable to holders of redeemable units approximate their fair values due to their short-term nature. Fair values are classified as Level 1 when the related security or derivative is actively traded and a quoted price is available. If an instrument classified as Level 1 subsequently ceases to be actively traded, it is transferred out of Level 1. In such cases, instruments are reclassified into Level 2, unless the measurement of its fair value requires the use of significant unobservable inputs, in which case it is classified as Level 3.

The Manager is responsible for performing the fair value measurements included in the financial statements of the Fund, including Level 3 measurements. The Manager obtains pricing from a third party pricing vendor, which is monitored and reviewed by the Director of Finance each day. At each financial reporting date, the Chief Financial Officer (CFO) of the Manager reviews and approves all Level 3 fair value measurements. The Fund also has a Valuation Committee which includes the CFO and other

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

members of the finance team, as well as members of the portfolio management and compliance teams. The committee meets quarterly to perform detailed reviews of the valuations of investments held by the Fund. Any adjustments to the prices or estimates provided by the third party pricing vendor are discussed with the Fund's Advisory Committee.

a) Equities

The Fund's equity positions are classified as Level 1 when the security is actively traded and a reliable price is observable. Certain of the Fund's equities do not trade frequently and therefore observable prices may not be available. In such cases, fair value is determined using observable market data (e.g., transactions for similar securities of the same issuer) and the fair value is classified as Level 2, unless the determination of fair value requires significant unobservable data, in which case the measurement is classified as Level 3. The Fund holds a private equity investment in TTT Inc. which has been classified as Level 3.

The Fund's investment is in 100,439 common shares of TTT Inc., representing 8% of the outstanding common shares. The fair value of this investment has been determined using the comparable company valuation multiples approach. In applying this approach the Manager selected five comparable public company peers that have similar risk, growth and cash-generating potential profiles and concluded that an Enterprise Value (EV)/EBITDA valuation multiple of 9.0x is a relevant performance measure for its investment. Valuation multiples are derived from the reported earnings and the period end stock price of companies in the peer group, or if a company in the group is sold, the transaction price. If an observed transaction price represents the sale of a controlling interest, the Manager deducts the amount of the control premium from the indicated fair value obtained using transaction multiples. The Manager assesses the control premiums from which to derive the non-controlling interest by referring to data on empirical control premium studies that considered industry, pricing, deal size and timing of the observed premiums. The Manager also adjusts the indicated fair value to give the effect of the lack of liquidity compared to the publicly traded peer group when it determines that the market participants would take this into account when pricing the investment. Liquidity discount is quantified on the basis of relevant restricted stock studies.

The significant unobservable inputs used in the fair value measurement of this investment were:

	December 31, 2014	December 31, 2013	January 1, 2013
Indicated fair value of 100,439 common shares based on EV/EBITDA of 9.0x (December 31, 2013 – 8.4x, January 1, 2013 – 8.6x)	\$1,734,076	\$1,618,471	\$1,657,006
Non-controlling interest discount of 11% (December 31, 2013 – 11%, January 1, 2013 – 11%)	(190,748)	(178,032)	(182,271)
Discount for lack of liquidity of 6% (December 31, 2013 – 6.4%, January 1, 2013 – 6.6%)	(104,045)	(103,582)	(109,363)
Fair value	\$1,439,283	\$1,336,857	\$1,365,372

PwC observation. IFRS 13 requires expanded disclosures about fair value measurements of financial and non-financial assets and liabilities, particularly for those measurements included in Level 3. Sample Fund has only a single investment included in Level 3 and thus has provided information about that investment in isolation. For investment funds which hold significant Level 3 investments, significant judgment will be required in determining the appropriate level of aggregation at which to provide these disclosures. For further information about the new disclosure requirements and illustrations of how they may apply, refer to our 2013 global publication *Illustrative IFRS financial statements – Investment Funds* and to our publication *Disclosing Fair Values in Annual Financial Statements – Applying IFRS 13*.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

b) Bonds and short-term investments

Bonds include primarily government and corporate bonds, which are valued using models with inputs including interest rate curves, credit spreads and volatilities. The inputs that are significant to valuation are generally observable and therefore the Fund's bonds and short-term investments have been classified as Level 2.

c) Gold bullion

Gold bullion is measured at fair value based on the LME closing price.

d) Derivative assets and liabilities

Derivative assets and liabilities consist of foreign currency forward contracts which are valued based primarily on the contract notional amount, the difference between the contract rate and the forward market rate for the same currency, interest rates and credit spreads. Contracts for which counterparty credit spreads are observable and reliable, or for which the credit-related inputs are determined not to be significant to fair value, are classified as Level 2.

There were no financial instruments that were transferred into or out of Level 1 or 2 during the years ended December 31, 2014 and 2013. The following table presents the movement in Level 3 instruments for the years ended December 31, 2014 and 2013:

	Equities	
	2014	2013
Opening balance – January 1	\$949	\$0
Purchases	250	900
Change in unrealized gains	240	49
Ending balance – December 31	\$1,439	\$949

6. Financial instruments by category

The following tables present the carrying amounts of the Fund's financial instruments by category as at December 31, 2014:

Assets	Financial assets at FVTPL			Financial assets at	
	HFT	Designated at inception	Total	amortized cost	Total
Non-derivative financial assets	\$254,610	\$204,850	\$459,460	\$-	\$459,460
Cash	-	-	-	135	135
Subscriptions receivable	-	-	-	213	213
Interest receivable	-	-	-	2,469	2,469
Dividends receivable	-	-	-	723	723
Derivative assets	563	-	563	-	563
Total	\$255,173	\$204,850	\$460,023	\$3,540	\$463,563

Liabilities	Financial liabilities at FVTPL			Financial liabilities at	
	HFT	Designated at inception	Total	amortized cost	Total
Redemptions payable	\$-	\$-	\$-	\$478	\$478
Distributions payable	-	-	-	49	49
Accrued liabilities	-	-	-	732	732
Derivative liabilities	31	-	31	-	31
Total	\$31	\$-	\$31	\$1,259	\$1,339

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

The following table presents the carrying amounts of the Fund's financial assets by category as at December 31, 2013. All of the Fund's financial liabilities, other than its net assets attributable to holders of redeemable units, as at December 31, 2013 were carried at amortized cost.

Assets	Financial assets at FVTPL Designated at inception			Financial assets at amortized cost	
	HFT		Total		Total
Non-derivative financial assets	\$285,622	\$205,952	\$491,574	\$-	\$491,574
Cash	-	-	-	6	6
Subscriptions receivable	-	-	-	404	404
Interest receivable	-	-	-	1,648	1,648
Dividends receivable	-	-	-	376	376
Total	\$285,622	\$205,952	\$491,574	\$2,434	\$494,008

The following table presents the carrying amounts of the Fund's financial assets by category as at January 1, 2013. All of the Fund's financial liabilities, other than its net assets attributable to holders of redeemable units, as at January 1, 2013 were carried at amortized cost.

Assets	Financial assets at FVTPL Designated at inception			Financial assets at amortized cost	
	HFT		Total		Total
Non-derivative financial assets	\$266,580	\$196,534	\$463,114	-	\$463,114
Cash	-	-	-	8	8
Subscriptions receivable	-	-	-	342	342
Interest receivable	-	-	-	2,027	2,027
Dividends receivable	-	-	-	345	345
Derivative assets	17	-	17	-	17
Total	\$266,597	\$196,534	\$463,131	\$2,722	\$465,853

PwC observation. Based on its trading strategy and investments that it holds, Sample Fund has determined that some of its investments are 'held-for-trading' under IAS 39, and others have instead been designated at FVTPL. As a result, Sample Fund is required to provide disclosures which differentiate between those instruments which are required to be at FVTPL and those which have been designated as such. Under IAS 39, a security is held-for-trading if it is acquired or incurred with a view towards selling or repurchasing in the near term, part of a portfolio for which there's evidence of a recent actual pattern of short-term profit-taking, or a derivative. In many cases, investment funds may have a single portfolio trading strategy, such that all of the fund's investments are either held-for-trading (e.g. actively traded portfolios), or designated at FVTPL (e.g. buy and hold strategies).

Although the term 'portfolio' is not explicitly defined in IAS 39, the context in which it is used suggests that a portfolio is a group of financial assets or financial liabilities that are managed together. Also the phrases 'selling them in the near-term' and 'held for only a short period of time' are not explained in IAS 39. Therefore, in practice, an entity should adopt a suitable definition of these phrases and apply them on a consistent basis to avoid any ambiguity. For example, it is likely that if a security was acquired with the intent of selling it within a few weeks or months, the security would be classified as held-for-trading.

Sample Fund**Notes to the financial statements***(All amounts in \$ thousands unless otherwise stated)*

The following table presents the net gains (losses) on financial instruments at FVTPL by category for the years ended December 31, 2014 and 2013.

Category	Net gains (losses)	
	2014	2013
Financial assets at FVTPL:		
HFT	(\$4,103)	\$19,343
Designated at inception	11,928	14,380
Total financial assets at FVTPL	7,825	33,723
Financial liabilities at FVTPL:		
HFT	31	-
Total	\$7,856	\$33,723

PwC observation. IFRS 7 has recently been amended to address two issues: transfers of financial assets, and offsetting (or netting) of financial assets and liabilities, and both amendments will apply to investment funds upon transition in 2014. As disclosed in Note 5, Sample Fund does not have any securities loaned at each of the measurement dates. For investment funds with financial assets transferred but not derecognized in their entirety, or those which are derecognized in their entirety at year-end (e.g. securities loaned or subject to repurchase agreements etc.) IFRS 7.42A – H require additional qualitative and quantitative disclosures to be provided. The standard also provides examples of how the quantitative disclosure requirements may be applied in IFRS 7.IG40B and C.

Sample Fund's derivatives are with separate counterparties and consequently, it does not have any amounts offset in its financial statements or subject to enforceable master netting or other similar agreements, but that were not offset. The amended IFRS 7 requires that investment funds identify and disclose not only financial assets and liabilities that have been offset in the financial statements, but also those that would be offset if future events, such as bankruptcy or termination of contracts, were to arise. Identifying these arrangements may require significant time and effort, and may require the participation of legal counsel.

In addition to Sample Fund's accounting policy (see Note 3), the following illustrates how Sample Fund may have met the new disclosure requirements if it had financial assets and liabilities which had been offset, or were subject to master netting or similar arrangements:

The following table presents the recognized financial instruments that are offset, or subject to enforceable master netting agreements or other similar agreements but that are not offset, as at December 31, 2014, December 31, 2013 and January 1, 2013. The 'Net' column shows what the impact on the Fund's statement of financial position would be if all set-off rights were exercised.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

PwC observation ...continued

Financial assets and liabilities	Amounts offset		Amounts not offset		Net	
	Gross assets / liabilities	Gross assets / liabilities offset	Net amounts presented	Financial instruments	Cash collateral received	
December 31, 2014						
Derivative assets	\$163	\$ -	\$163	\$(50)	\$ -	\$113
Receivable for investments sold	506	(86)	420	-	-	420
Total	\$669	\$(86)	\$583	\$(50)	\$ -	\$533
Derivative liabilities	\$66	\$ -	\$66	\$(50)	\$ -	\$ 16
Payable for investments purchased	236	(86)	150	-	-	150
Total	\$302	\$(86)	\$216	\$(50)	\$ -	\$166
December 31, 2013						
Derivative assets	\$54	\$ -	\$54	\$(54)	\$ -	\$-
Receivable for investments sold	397	(101)	296	\$ -	\$ -	\$296
Total	\$451	\$(101)	\$350	\$(54)	\$ -	\$296
Derivative liabilities	\$93	\$ -	\$93	\$(54)	\$ -	\$39
Payable for investments purchased	223	(101)	122	-	-	122
Total	\$316	\$(101)	\$215	\$(54)	\$ -	\$161
Financial assets and liabilities						
	Amounts offset		Amounts not offset		Net	
	Gross assets / liabilities	Gross assets / liabilities offset	Net amounts presented	Financial instruments	Cash collateral received	
January 1, 2013						
Derivative assets	\$196	\$ -	\$196	\$(60)	\$ -	\$136
Receivable for investments sold	607	(103)	504	-	-	504
Total	\$803	\$(103)	\$700	\$(60)	\$ -	\$640
Derivative liabilities	\$79	\$ -	\$79	\$(60)	\$ -	\$ 19
Payable for investments purchased	283	(103)	180	-	-	180
Total	\$362	\$(103)	\$259	\$(60)	\$ -	\$199

Sample Fund is subject to enforceable master netting arrangements in the form of ISDA agreements with the counterparties to its derivative contracts. Under the terms of certain of these agreements, offsetting of derivative contracts is permitted for same day settlements when contracts with the same counterparty mature simultaneously, and in other cases only in the event of bankruptcy or default of either party to the agreement. The Fund's arrangement with its broker also permits offset of amounts receivable and payable in respect of securities purchased or sold in the normal course of business.

While not illustrated in the example above, there are many other circumstances in which investment funds could have amounts offset or subject to master netting or similar agreements, which may require disclosure, including repurchase agreements, short sales and securities lending, among others. For further information about the new requirements and illustrative examples, refer to our 2013 global publication *Illustrative IFRS financial statements – Investment Funds*, and to our publication *Offsetting of Financial Instruments – Disclosure in 2013 Annual Financial Statements*.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

7. Redeemable units

During the year ended December 31 2014 and 2013, the number of units issued, redeemed and outstanding was as follows:

	2014	2013
Units outstanding at January 1	36,622,366	35,916,890
Redeemable units issued	5,062,925	6,989,574
Redeemable units issued on reinvestments	548,323	488,635
Redeemable units redeemed	(6,451,962)	(6,772,733)
Units outstanding at December 31	35,781,652	36,622,366

PwC observation. IFRS 7.25 requires that an entity disclose the fair values of financial assets and liabilities, except in limited circumstances, including when the carrying amount is a reasonable approximation of fair value. [IFRS 7.29(a)] As Sample Fund is an open-ended mutual fund trust with daily redemptions, the carrying value of its net assets, or NAV, is approximately equal to the fair value of the units issued. In some cases, such as closed-end funds, this may not be the case and disclosure of the fair value of the obligation for redeemable units may be necessary.

8. Related party transactions

The Fund's investment activities are managed by XYZ Capital Limited (the Manager), with the administration delegated to ABC Fund Services Limited (the Administrator).

(a) Management fees

Under the terms of the management agreement dated May 15, 2001, the Fund appointed the Manager to provide management services. The Manager receives a fee based on the NAV of the Fund's units, accrued daily and payable monthly at an annual rate of 1.75%. The investment management agreement provides that the Fund may terminate the Manager with sixty days notice, by way of vote in which not less than 75% of unitholders of record vote in favor of such termination. Total management fees for the year ended December 31, 2014 amounted to \$8,961 (2013: \$8,821), with \$529 in outstanding accrued fees due to the Manager at December 31, 2014 (December 31, 2013 \$601; January 1, 2013 \$561).

(b) Independent Review Committee fees

The total remuneration paid to members of the Independent Review Committee during the year ended December 31, 2014 was \$8 (2013: \$8) and consisted only of fixed fees.

9. Brokerage commissions and soft dollars

The Manager may select brokers who charge a commission in "soft dollars" if they determine in good faith that the commission is reasonable in relation to the order execution and research services utilized. The ascertainable soft dollar value received as a percentage of total brokerage commissions paid during the years ended December 31, 2014 and 2013, is disclosed below.

	2014	2013
Soft dollars	10	1
Percentage of total transaction costs (%)	3.92	2.89

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

PwC observation. Consistent with Part 3.6(1)(3) of NI 81-106, investment funds will continue to be required to disclose the “soft dollar” portion of total commissions and other transaction costs.

10. Increase (decrease) in net assets attributable to holders of redeemable units per unit

The increase (decrease) in net assets attributable to holders of redeemable units per unit for the years ended December 31, 2014 and 2013 is calculated as follows:

	2014	2013
Increase (decrease) in net assets attributable to holders of redeemable units	(\$1,915,000)	\$24,367,000
Weighted average units outstanding during the year	36,202,009	36,269,628
Increase (decrease) in net assets attributable to holders of redeemable units per unit	(\$0.05)	\$0.67

PwC observation. Redeemable units and shares of investment funds do not meet the definition of ordinary shares as they are not viewed as “equity” instruments for the purposes of IAS 33 (i.e. regardless of whether or not they are classified as equity by the fund). As a result, investment funds typically won't be within the scope of IAS 33 and therefore are not required by IFRS to present earnings per share. However, NI 81-106 requires disclosure of the increase (decrease) in net assets attributable to holders of redeemable units / shares per unit / share. We believe this disclosure represents an additional GAAP financial measure as contemplated in CSA Staff Notice 52-306, *Non-GAAP Financial Measures and Additional GAAP Financial Measures*, and will require disclosure similar to that made by Sample Fund above. For investment funds with complex structures, consideration may also need to be given to the effect of potentially dilutive instruments issued by the fund (e.g. warrants).

11. Transition to IFRS

The effect of the Fund's transition to IFRS is summarized in this note as follows:

Transition elections

The only voluntary exemption adopted by the Fund upon transition was the ability to designate a financial asset or financial liability at fair value through profit and loss upon transition to IFRS. All financial assets designated at FVTPL upon transition (see Note 6) were previously carried at fair value under Canadian GAAP as required by Accounting Guideline 18, *Investment Companies*.

Statement of cash flows

Under Canadian GAAP, the Fund was exempt from providing a statement of cash flows. IAS 1 requires that a complete set of financial statements include a statement of cash flows for the current and comparative periods, without exception.

Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

Equity	December 31, 2013	January 1, 2013
Equity as reported under Canadian GAAP	\$484,981	\$463,613
Revaluation of investments at FVTPL	1,197	1,128
Net assets attributable to holders of redeemable units	\$486,178	\$464,741

Sample Fund**Notes to the financial statements***(All amounts in \$ thousands unless otherwise stated)*

	Year ended
Comprehensive income	December 31, 2013
Comprehensive income as reported under Canadian GAAP	\$24,298
Revaluation of investments at FVTPL	69
Increase (decrease) in net assets attributable to holders of redeemable units	\$24,367

Classification of redeemable units issued by the Fund

Under Canadian GAAP, the Fund accounted for its redeemable units as equity. Under IFRS, IAS 32 requires that units or shares of an entity which include a contractual obligation for the issuer to repurchase or redeem them for cash or another financial asset be classified as financial liability. The Fund's units do not meet the criteria in IAS 32 for classification as equity and therefore, have been reclassified as financial liabilities on transition to IFRS.

Revaluation of investments at FVTPL

Under Canadian GAAP, the Fund measured the fair values of its investments in accordance with Section 3855, *Financial Instruments – Recognition and Measurement*, which required the use of bid prices for long positions and ask prices for short positions, to the extent such prices are available. Under IFRS, the Fund measures the fair values of its investments using the guidance in IFRS 13, *Fair Value Measurement* (IFRS 13), which requires that if an asset or a liability has a bid price and an ask price, then its fair value is to be based on a price within the bid-ask spread that is most representative of fair value. It also allows the use of mid-market pricing or other pricing conventions that are used by market participants as a practical expedient for fair value measurements within a bid-ask spread. As a result, upon adoption of IFRS an adjustment was recognized to increase the carrying amount of the Fund's investments by \$1,128 at January 1, 2013 and \$1,197 as at December 31, 2013. The impact of this adjustment was to increase the Fund's increase (decrease) in net assets attributable to holders of redeemable units by \$69 for the year ended December 31, 2013.

Sample Fund

Notes to the financial statements

(All amounts in \$ thousands unless otherwise stated)

Reclassification adjustments

In addition to the measurement adjustments noted above, the Fund reclassified certain amounts upon transition in order to conform to its financial statement presentation under IFRS. Under Canadian GAAP, the Fund presented interest income on debt instruments in the statement of comprehensive income calculated using the stated rate without amortization of discounts, premiums or transaction costs. Under IFRS, the Fund calculates interest income using the effective interest method. As a result, \$1,039 was reclassified from Change in unrealized appreciation (depreciation) to interest income for the year ended December 31, 2013. In addition, withholding taxes of \$258 for the year ended December 31, 2013 which were previously netted against dividend income under Canadian GAAP, have been reclassified and presented separately as expense under IFRS.

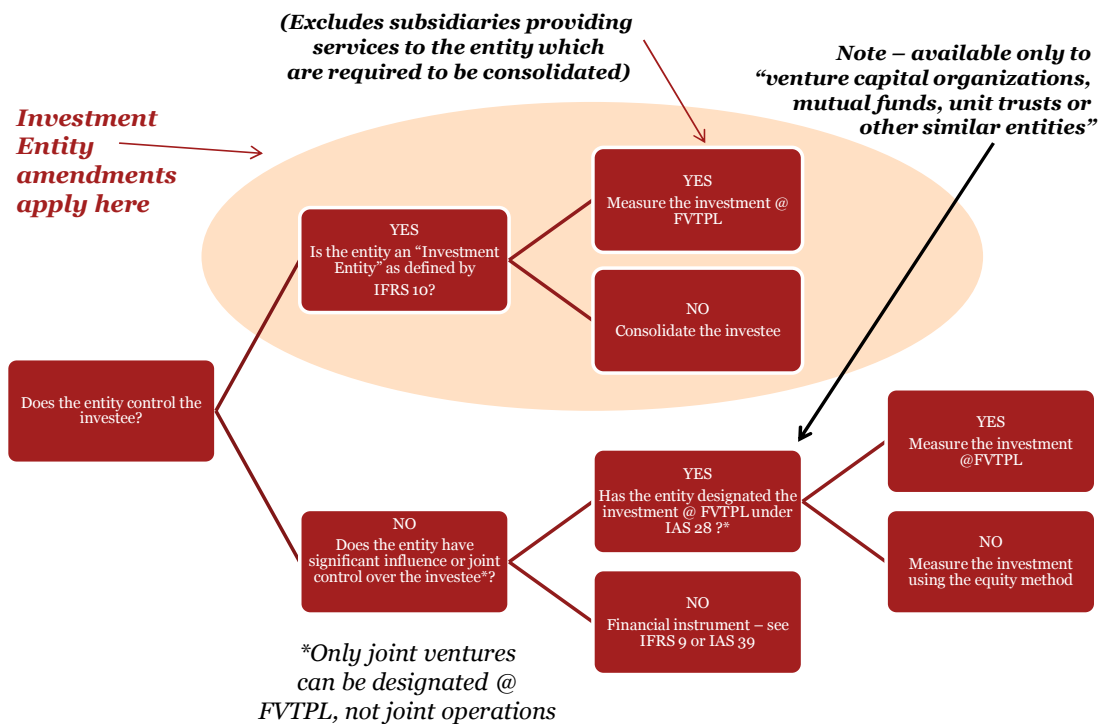
PwC observation. Like Sample Fund, we expect most Canadian investment funds will classify their units or shares as financial liabilities upon transition to IFRS. Unlike Canadian GAAP, which permitted equity classification for nearly all units or shares issued by investment funds, IFRS only allows equity treatment if strict criteria are met (see Appendix B for a discussion about these criteria and the expected impact on typical Canadian investment fund structures). Sample Fund has followed the presentation illustrated in Example 7 of IAS 32, resulting in presentation and subtotals very similar to its previous reporting under Canadian GAAP, despite the fact that it no longer has any equity for financial reporting purposes.

Since its units are classified as financial liabilities, Sample Fund is not required to disclose components of equity (e.g. unitholders' capital, retained earnings, contributed surplus etc.) which would otherwise be required by IAS 1.106 – 108, or the disclosures about puttable instruments classified as equity required by IAS 1.136A. Also, as its units are financial liabilities which require re-measurement through net income on an ongoing basis, Sample Fund has an "accounting mismatch" permitting it to apply the fair value option for any of its investment assets which are not otherwise eligible for FVTPL classification in accordance with IAS 39 or IFRS 9.

Appendix A – Accounting for investments under IFRS

Under Canadian GAAP, investment funds were evaluated to determine whether they qualified as “investment companies” under AcG-18. For those which qualified, all investments were accounted for at fair value with changes in fair value recorded in net income. IFRS does not contain similar guidance and instead investment funds must consider the measurement basis applicable to each investment. For example, an investment fund must first assess whether it has control, joint control or significant influence over the investee. As shown below, it may be possible to measure any of these investments at FVTPL however, additional evaluations and designations (e.g. documentation stating the fund’s intention to apply a fair value option upon initial recognition of an investment) may be required.

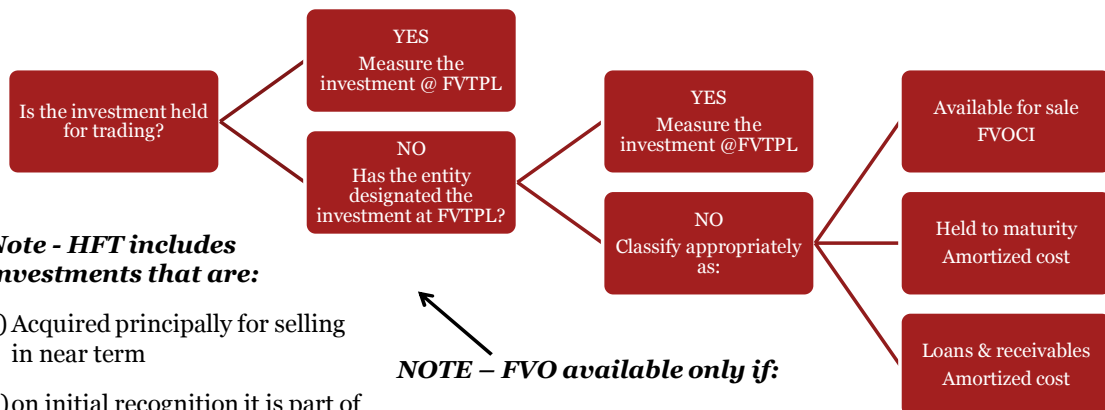
IFRS model – Investment-level assessment



If none of these levels of control or influence are present, the investment fund will be required to assess the appropriate classification of its investments under IAS 39 or IFRS 9. Under IAS 39, the investment fund must first determine whether its investment is held for trading, meaning that it’s a short-term position, being traded frequently or is a derivative, which are required to be at FVPTL. If not, then it may be possible for the investment fund to designate the investment at FVTPL, but certain criteria must be met, as shown below. If the investments are not held for trading and the investment fund does not designate them at FVTPL, they may be required to be

carried at amortized cost or FVOCI (as available-for-sale) depending on the characteristics of the specific investment.

IFRS model – Classifying investments in IAS 39



Note - HFT includes investments that are:

- a) Acquired principally for selling in near term
- b) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or
- c) Derivatives

NOTE – FVO available only if:

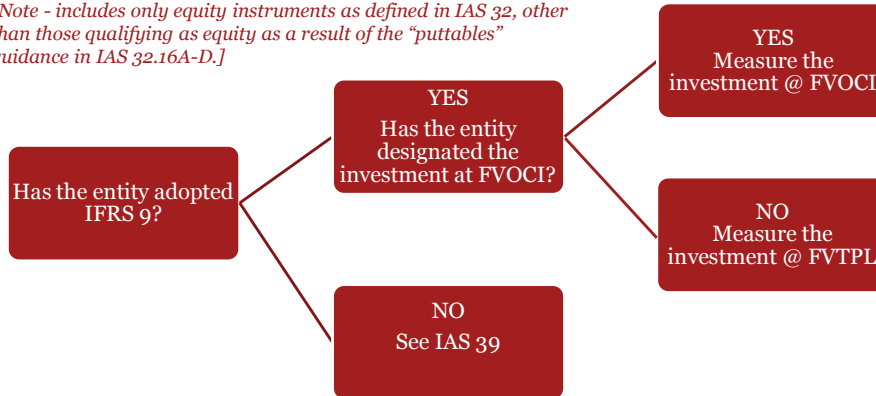
- a) “accounting mismatch”
- b) Managed on a fair value basis
 - including VCO, mutual fund, unit trust or other similar entity whose business is investing with a view towards profiting from total return (IAS 39.AG4I)
- c) Investment contains one or more embedded derivatives

As currently issued, IFRS 9 requires that financial assets be classified as FVTPL unless: (a) they give rise solely to interest and principal cash flows and are held within a business model whose objective is to collect such cash flows, which are carried at amortized cost, or (b) they are equity instruments which have been designated upon initial recognition at FVOCI. In some cases, simple debt instruments may default to amortized cost however, they may be eligible for designation at FVTPL if an “accounting mismatch” exists.

IFRS model – Classifying investments in IFRS 9

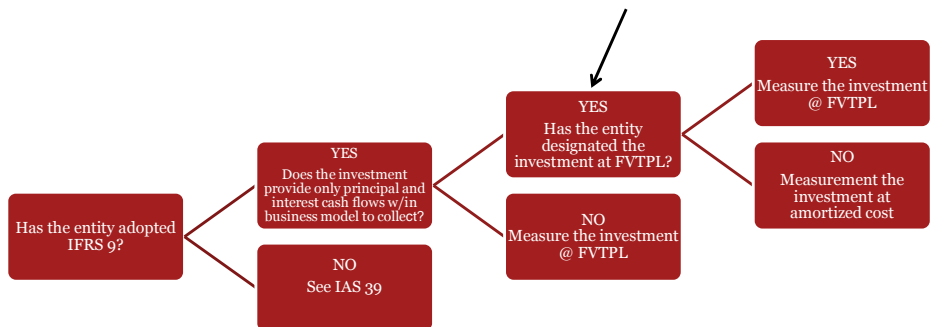
IFRS 9 – Equities

[Note - includes only equity instruments as defined in IAS 32, other than those qualifying as equity as a result of the “puttables” guidance in IAS 32.16A-D.]



IFRS 9 – Debt instruments

NOTE - fair value option only applies if “accounting mismatch”!



Appendix B – Application of IAS 32 to typical Canadian investment fund structures

Under IFRS, IAS 32 provides guidance to determine when an investment fund’s units or shares may be classified as equity or liability. A redeemable investment fund unit is classified as a financial liability unless it qualifies for equity treatment by having all the following features:

- Entitles the holder to a pro rata share of the entity’s net assets in the event of the entity’s liquidation,
- Is in the class of instruments that is subordinate to all other classes of instruments,
- Has identical features to all other instruments in that class,
- Apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, does not include any contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity, and it is not a contract that will or may be settled in the entity’s own equity instruments as set out in subparagraph (b) of the definition of a financial liability, and
- Gives rise to total expected cash flows over the life of the instrument that are based substantially on the profit or loss, the change in the recognized net assets or the change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument (excluding any effects of the instrument).

The table below summarizes the application of these criteria to typical Canadian investment fund structures and is solely intended to provide anticipated classification in the majority of cases based on features common to these structures. In all cases, the equity vs. liability determination for units or shares will depend significantly on a detailed examination of the Fund’s governing documents to identify the unique facts and circumstances specific to each individual investment fund.

<i>Structure</i>	<i>Typical classification</i>	
Multi-series trust	Liability	The objective of a multi-series trust is to enable different groups of investors to participate in the fund on different terms, including being subject to different management fee rates on their investments. As a result, all of the units issued by these funds will not typically have “identical features” and therefore, will violate IAS 32.16A(c) and be required to be classified as liability.

<i>Structure</i>	<i>Typical classification</i>	
Single-series trust	Equity or Liability	<p>The following are some common features which would lead to liability classification for redeemable units issued by single series trusts:</p> <ul style="list-style-type: none"> • Specified termination date for the trust such as fixed date (e.g. January 14, 2021), or “King George” or “Royalty Lives” clauses, or • Obligation for the trust to distribute its income to minimize taxes (e.g. "...the Trust shall distribute...") such that it has no discretion to avoid cash distributions. <p>If any of these conditions are present, together with an ongoing redemption option, the fund’s units will violate IAS 32.16A(d) and be required to be classified as liability. In some cases, other conditions may be present which could also cause the units to require liability treatment, or the units may be required to be classified as equity.</p>
Corporate class (Individual class statements)	Liability	<p>The classes of a Canadian corporate fund will typically not participate pro rata in the residual net assets of the legal entity overall, nor will they have identical features. As a result, all classes will typically violate IAS 32.16A and IAS 32.16A(c) and therefore be financial liabilities at the overall legal entity level. The classification of the shares does not change whether or not the legal entity or individual class is presented, since the risk of cross-class liability exists (despite the fact that it may be remote).</p>
Corporation / split-share corporation	Liability	<p>Often, corporations will have a nominal class of founders’ shares which are subordinate to all other classes (e.g. only redeemable once all other classes have been redeemed). In such cases, only the founder’s shares may meet the “most subordinate” requirement in IAS 32.16A(b) to be treated as equity, in which case all other shares will be liabilities. In other cases, all shares may be equally subordinate but not have identical features as required by IAS 32.16A(c), resulting in liability classification of all shares. Split-share corporations without any equity may be able to achieve presentation similar to previous Canadian GAAP by adopting the presentation format in Example 7 of IAS 32 and including the fund’s liability for its preferred shares with other liabilities of the fund, before arriving at the liability for “net assets attributable to holders of redeemable common shares”.</p>

Structure	Typical classification	
Limited partnership	Equity or Liability	Limited partnership agreements will need to be examined individually in order to assess the specific facts and circumstances as they relate to the criteria in IAS 32. In many cases, the general partner interest may be subordinate to the limited partner interests (e.g. only redeemable once all limited partner interests have been repatriated). In this case, the general partner interest is likely to qualify as equity, while the limited partner interests will be liability. In other cases, the general partner and limited partners may be equally subordinate but violate other criteria in IAS 32.16A, resulting in liability classification of all interests.
Segregated funds	Liability	Segregated funds will typically classify policyholder interests as financial liabilities. This is for a number of reasons, including that the segregated funds represent a collection of individual contracts between an insurer and its policyholders, which have limited lives. Coupled with an ongoing redemption option, this violates IAS 32.16A(d) as more than one obligation exists. Also, the segregated fund financial statements are similar to the carve-out of individual “class” financial statements in a corporate class fund, discussed above. As a result, the classification of the policyholder interests as financial liabilities by the insurer would not be re-assessed in preparing the financial statements of the segregated fund itself.

For more information about this publication or the transition to IFRS for investment funds, please contact your local engagement leader or one of our Asset Management industry experts below.

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